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Controller's Review Finds Errors in Property Tax Reporting Cost the State Millions a Year

SACRAMENTO – State Controller John Chiang today unveiled the results of a financial review that found errors committed in 2005-2007 by schools, community colleges and redevelopment agencies reporting and computing property tax payments cost the State at least \$63 million.

“These reporting and calculation errors resulted in the State unnecessarily spending millions of dollars to backfill schools and community colleges for a portion of funds they did not receive or received and failed to report,” Chiang said. “More alarming is that not only did these errors hurt the State’s strained General Fund, they also shortchanged low- and moderate-income housing projects and other local entities that provide critical services, such as police, fire districts and libraries.”

When a redevelopment agency (RDA) is established, a base property valuation is determined. As the area is redeveloped, property values grow. Twenty percent of the property tax growth above the base level goes to low- and moderate-housing projects. The RDA passes through a portion of the remaining additional property tax revenue to other affected taxing entities based on various formulas established by the Legislature.

As part of the Budget Act signed into law in August, the Legislature directed the State Controller’s Office to determine how much county property tax revenues are received at the local level and how the revenues are distributed and reported for purposes of offsetting the State’s Proposition 98 General Fund obligation.

In November, the Controller’s Office issued its findings, which showed K-12 school districts and community colleges were improperly reporting property taxes passed through to them from redevelopment agencies. To determine the fiscal impact on the State, the Controller’s Office launched a second phase review to determine the impact.

This supplemental review found that K-12 school districts understated RDA pass-through payments by an estimated \$105 million for Fiscal Year 2005-06, resulting in a \$17.8 million cost to the General Fund. In Fiscal Year 2006-07, the underpayments cost the State \$16 million.

In Fiscal Year 2005-06, community colleges understated RDA pass-through payments by \$8.2 million, resulting in an additional \$3.9 million State obligation to schools. In 2006-07, the impact on the General Fund was \$4.2 million.

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The review also found that Los Angeles County, without statutory authority, calculates and withholds its share of pass-through payments before sending the remaining amount to the RDAs to distribute to other taxing entities. Some RDAs in the county did not calculate and distribute pass-through payments to other taxing entities in the mistaken belief that the County already had done so. The Controller's Office estimates those mistakes resulted in underpayments of \$19.1 million to school districts and community colleges in 2005-06, and \$21.1 million in 2006-07. The underpayments resulted in the State General Fund paying Los Angeles County schools and community colleges \$8.38 million more than it should have in 2005-06 and \$9.2 million more in 2006-07.

In addition, the Controller's Office reviewed RDAs in counties other than Los Angeles. Of the 217 RDAs contacted, four did not respond to inquiries, six said they did not compute or fully compute pass-through payments and 207 provided auditors with schedules and worksheets in support of their pass-through payment calculations. More information is needed to determine the accuracy of the RDAs' calculations. However, the Controller's Office did determine that RDA reporting errors when submitting financial data to the Controller's Office understated the amount of pass-through payments made to schools. The Controller estimates that those errors resulted in another \$3.8 million in excess State General Fund obligation to the schools in 2005-06. There was insufficient data to make a similar estimate of the fiscal impact for Fiscal Year 2006-07.

The Controller's review also found that some projects undertaken by redevelopment agencies have debt obligations that could have serious fiscal consequences to local governments. Of 59 projects established before 1971, 18 RDAs appeared to receive insufficient tax increments from the increased property value to repay the estimated debt by the time the project is concluded.

For example, the Flosden Acres Project Area in the City of Vallejo was established in 1970 and has until the year 2041 to repay its indebtedness. With an estimated \$1.4 million in property taxes passed through to it each year, it would take the project 178 years, or until 2184, to fully repay the debt. As the project is expected to be completed before 2184, it is unclear whether any oversight entity has considered how to fund any unpaid indebtedness at the conclusion of the project.

The Hunters Point Project Area in San Francisco would take until 2026 to pay its \$11 million indebtedness; however, the final year the project will receive pass through payments from the RDA is 2019.

A copy of the [report](#) is available on the Controller's Web site at www.sco.ca.gov.

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